

ATTACHMENT B

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES INVESTOR PROTECTION
CORPORATION,

Plaintiff-Applicant,

v.

BERNARD L. MADOFF INVESTMENT
SECURITIES LLC,

Defendant.

In re:

BERNARD L. MADOFF,

Debtor.

IRVING H. PICARD, Trustee for the Liquidation of
Bernard L. Madoff Investment Securities LLC,

Plaintiff,

v.

NORMA SHAPIRO, individually and in her
capacity as Trustee for the Norma Shapiro
Revocable Declaration of Trust Under Agreement
Dated 9/16/2008 and the Trust Under Will of
Philip L. Shapiro; NORMA SHAPIRO
DECLARATION OF TRUST UNDER
AGREEMENT DATED 9/16/2008,
REVOCABLE TRUST; TRUST UNDER WILL
OF PHILIP SHAPIRO; and MARTIN ROSEN, in
his capacity as Trustee of the Trust Under Will of
Philip L. Shapiro,

Defendants.

Adv. Pro. No. 08-01789 (SMB)

SIPA LIQUIDATION

(Substantively Consolidated)

Adv. Pro. No. 10-04486 (SMB)

**EXPERT REPORT OF
MATTHEW B. GREENBLATT, CPA/CFF, CFE
SENIOR MANAGING DIRECTOR
FTI CONSULTING, INC.**

**PRINCIPAL BALANCE CALCULATION
AS APPLIED TO
THE NORMA SHAPIRO DEFENDANTS**

July 31, 2015

Table of Contents

	Page
I. INTRODUCTION.....	1
II. DESCRIPTION OF ACTIVITY IN SHAPIRO ACCOUNT 1S0337 AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION.....	2
A. Summary of Activity in BLMIS Account 101208 and the Inter-Account Transfer Into BLMIS Account 1S0070	3
B. Summary of Activity in BLMIS Account 1S0070 and the Inter-Account Transfer Into Shapiro Account 1S0337	4
C. Description of the Cash Deposits and the Inter-Account Transfer Into Shapiro Account 1S0337	6
D. Description of the Cash Withdrawals Out of Shapiro Account 1S0337	7
III. DESCRIPTION OF ACTIVITY IN SHAPIRO ACCOUNT 1S0338 AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION.....	7
A. Summary of Activity in BLMIS Account 1S0072 and the Inter-Account Transfer Into Shapiro Account 1S0338	8
B. Description of the Cash Deposits and the Inter-Account Transfer Into Shapiro Account 1S0338	9
C. Description of the Cash Withdrawals Out of Shapiro Account 1S0338	10
IV. DESCRIPTION OF ACTIVITY IN SHAPIRO ACCOUNT 1S0467 AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION.....	10
A. Summary of Activity in BLMIS Account 1S0164 and the Inter-Account Transfer Into BLMIS Account 1S0327	11
B. Summary of Activity in BLMIS Account 1S0327 and the Inter-Account Transfer Into Shapiro Account 1S0467	12
C. Description of the Cash Deposit and the Inter-Account Transfer Into Shapiro Account 1S0467	12
D. Description of the Cash Withdrawals Out of Shapiro Account 1S0467	13

V.	SIGNATURE AND RIGHT TO MODIFY	14
VI.	LIST OF EXHIBITS	15

I. INTRODUCTION

1. As described in my Expert Report regarding the Methodology for the Principal Balance Calculation dated November 15, 2012 (the “Principal Balance Calculation Report”), FTI Consulting, Inc. (“FTI”) was retained by Baker & Hostetler LLP, on behalf of the Trustee, to, among other things, reconstruct the books and records of BLMIS. I am a Senior Managing Director at FTI. Additional information regarding my professional experience and recent testimony is included in my Curriculum Vitae annexed hereto as **Exhibit 1**.

2. As part of FTI’s reconstruction of the books and records of BLMIS, chronological listings of all cash and principal transactions for every BLMIS customer account were compiled. These chronological listings provided the foundation to calculate every BLMIS account holder’s principal balance on a daily basis for all dates from April 1, 1981 through December 11, 2008 (the “Principal Balance Calculation”).

3. The Principal Balance Calculation Report explains the methodology of the Principal Balance Calculation and describes the relevant documents and data that were maintained by BLMIS. Accordingly, this report should be read in conjunction with the Principal Balance Calculation Report.¹

4. This report specifically applies the methodology of the Principal Balance Calculation to the BLMIS accounts associated with Norma Shapiro; Norma Shapiro Declaration of Trust Under Agreement Dated 9/16/2008, Revocable Trust; Trust Under Will of Philip Shapiro; and Martin Rosen (collectively, the “Defendants”), in the above-captioned litigation, and provides a description of the cash and principal activity in the BLMIS accounts impacting the Principal Balance Calculation for BLMIS Account 1S0337 (“Shapiro Account 1S0337”)², BLMIS Account 1S0338 (“Shapiro Account 1S0338”)³, and BLMIS Account 1S0467 (“Shapiro Account 1S0467”) (collectively, the “Shapiro Accounts”).

¹ The opinions that I render in the Principal Balance Calculation Report, the documents that I considered in connection with that Report, and the accompanying Exhibits to that Report, are all incorporated by reference. All capitalized terms not defined herein shall have the meaning ascribed to them in the Principal Balance Calculation Report.

² The name on Shapiro Account 1S0337 changed over the years it was maintained with BLMIS. Prior to November 2008, the account was under the name of “Norma Shapiro.” From November 2008 through December 2008, the account was under the name “Norma Shapiro Trustee, Norma Shapiro Rev Dec Trust U/A/D 9/16/08.” (See **AMF00216126**.)

³ The name on Shapiro Account 1S0338 changed over the years it was maintained with BLMIS. Prior to August 2002, the account was under the name of “Philip L Shapiro.” From August 2002 through November 2008, the account was under the name “Trust U/W/O Philip L Shapiro.” (See **AMF00216207**.)

5. This report has been prepared in connection with the above-captioned litigation and is to be used only for the specific purposes of this lawsuit. It is not to be used for any other purpose without the express written consent of FTI. If called upon to testify in this matter, I intend to provide testimony regarding my analyses and conclusions consistent with this report. FTI is being compensated at a rate of \$554 per hour for my professional time incurred in performing the work necessary to prepare this report. FTI's fees are not contingent on the conclusions reached in this report or the outcome of the above-captioned litigation.

6. The documents and data that I considered in connection with this report are listed in **Exhibit 2**. I reserve the right to supplement my report based on any additional documents or information received.

II. DESCRIPTION OF ACTIVITY IN SHAPIRO ACCOUNT 1S0337 AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION

7. Shapiro Account 1S0337 was maintained with BLMIS beginning in July 1997. Throughout its account history with BLMIS, Shapiro Account 1S0337 had a total of 52 cash deposit and withdrawal transactions. In addition to these cash transactions, there was one inter-account transfer from BLMIS Account 1S0070 into Shapiro Account 1S0337.

8. The cash deposit and withdrawal transactions, as well as the inter-account transfer, all impacted the Principal Balance Calculation for Shapiro Account 1S0337. Each of these transactions was reflected on the Customer Statements between July 1997 and November 2008.

9. As described in the Principal Balance Calculation Report, the amount of the transfer of funds from one BLMIS account to another BLMIS account (an inter-account transfer⁴) is limited to the amount of principal available in the *transferor's* account at the time of the transfer. Only the portion of the inter-account transfers between BLMIS accounts for which the transferor had actual principal could be transferred. As such, all inter-account transfers have been analyzed and the transferee's account has been credited only up to the amount of principal available in the transferor's account on the day of the inter-account transfer.

⁴ An inter-account transfer is defined as a non-cash transaction between BLMIS customer accounts in which no new funds entered or left BLMIS, but rather a book entry occurred at BLMIS to internally adjust the balances of those accounts. These book entries did not reflect any transfers of cash because there was no actual movement of cash. Rather, these inter-account transfers merely changed reported value in the purported "equity" maintained in the BLMIS customers' accounts. (See Principal Balance Calculation Report, ¶¶17, 27-28, 32-34.)

10. Thus, in order to perform the Principal Balance Calculation for Shapiro Account 1S0337, BLMIS Account 1S0070 was analyzed to determine the amount of principal available in that account that could be transferred into Shapiro Account 1S0337.

11. To determine the amount of principal available in BLMIS Account 1S0070, one additional account, BLMIS Account 101208, was analyzed because an inter-account transfer from this account impacted the principal balance in BLMIS Account 1S0070.

12. **Exhibit 3A** to this report (Summary Schedule of Cash and Principal Activity in Shapiro Account 1S0337) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Shapiro Account 1S0337.

13. **Exhibits 4A-4C** to this report provide detailed schedules for the Principal Balance Calculation for BLMIS Account 101208, BLMIS Account 1S0070, and Shapiro Account 1S0337, respectively.

A. Summary of Activity in BLMIS Account 101208 and the Inter-Account Transfer Into BLMIS Account 1S0070

14. BLMIS Account 101208 was maintained with BLMIS beginning in November 1978.⁵ As discussed in greater detail in the Principal Balance Calculation Report, March 31, 1981 was the earliest date for which the BLMIS records provide the necessary information reported on monthly Customer Statements to calculate the principal balance for all accounts opened prior to March 1981.⁶ As BLMIS Account 101208 was opened prior to March 1981, BLMIS Account 101208 was granted an initial principal credit on April 1, 1981 equal to the account's reported ending cash balance and the historical cost of the securities reportedly held in the account as of March 31, 1981 on the Customer Statement.⁷

15. Because BLMIS Account 101208⁸ was opened prior to April 1, 1981, the Principal Balance Calculation granted an initial principal credit in the amount of \$199,113.⁹ The initial principal credit provided BLMIS Account 101208 with a total of \$119,113 of principal.¹⁰

⁵ See **MF00091811**; BLMIS Account 101208 was known as BLMIS Account 101219 at this time.

⁶ See Principal Balance Calculation Report at ¶¶20-22.

⁷ The Customer Statements reported amounts related to securities purportedly held at historical cost values, as opposed to market values, and therefore the historical cost basis was used in the limited instances in which BLMIS accounts pre-dated April 1, 1981.

⁸ See **Exhibit 7** for a copy of the March 1981 Customer Statement for BLMIS Account 101208 which demonstrates the amount granted as the principal credit as of April 1, 1981 for BLMIS Account 101208.

⁹ The amount of principal credit granted to BLMIS Account 101208 is calculated using the following formula: [New Balance] + [Value of Long Security Positions] - [Value of Short Security Positions]. Based on the March 1981

16. Between March 31, 1981 and May 11, 1984, BLMIS Account 101208 reflected a total of 20 cash withdrawals totaling \$154,897.¹¹

17. On May 11, 1984, there were three inter-account transfers from BLMIS Account 101208 into BLMIS Accounts 1L0019, 1D0008, and 1S0070 in equal amounts of \$77,478. These transactions were all dated May 11, 1984, as reflected on the Customer Statements. As of that date, BLMIS Account 101208 had only \$44,215 of principal available that could be transferred. At the direction of Trustee's counsel, I divided that principal amount equally between all three accounts. Applying that methodology, BLMIS Accounts 1L0019, 1D0008, and 1S0070 were each credited with \$14,738 of principal.¹² The remaining balance of these reported inter-account transfers constituted fictitious profits. (See **Exhibit 4A** for the Detailed Schedule for the Principal Balance Calculation for BLMIS Account 101208; see also **Exhibit 4B** for the Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0070.)

18. The 20 cash withdrawals and 3 inter-account transfers out of BLMIS Account 101208 were reflected on the Customer Statements with a transaction code as follows:

- 11 cash withdrawals were identified with a transaction code of "PW;"
- 9 cash withdrawals were identified with a transaction code of "PYMT;" and
- 3 inter-account transfers were identified with a transaction code of "CW."¹³

19. The 20 cash withdrawals and three inter-account transfers out of BLMIS Account 101208 were debited from the customer's account as reflected on the Customer Statements.

B. Summary of Activity in BLMIS Account 1S0070 and the Inter-Account Transfer Into Shapiro Account 1S0337

20. BLMIS Account 1S0070 was maintained with BLMIS beginning in November 1978.¹⁴ Because BLMIS Account 1S0070 was opened prior to March 1981, as discussed above, an initial principal credit was granted on April 1, 1981 equal to the account's reported ending cash

Customer Statement for BLMIS Account 101208, the calculation is as follows: [205,645.89 + 199,111.50 - 205,644.70 = 199,112.69].

¹⁰ The cash deposits exclude the line items on the Customer Statements related to a check for \$8,942 on May 11, 1984 because the check was cancelled with a note "CHECK TO BE REINSTATED" on May 11, 1984. (See **Exhibit 4A**.)

¹¹ These cash withdrawals exclude the line items on the Customer Statements related to a check for \$2,441 issued by BLMIS on May 19, 1983, which was returned on May 23, 1983. (See **Exhibit 4A**.)

¹² Refer to the Principal Balance Calculation Report at ¶¶27-28 and 32-34 for a full explanation of inter-account transfers of principal between BLMIS customer accounts.

¹³ See Expert Report regarding the Analysis of the Profit Withdrawal Transactions, dated July 14, 2015, No. 08-01789 (SMB), ECF No. 10663.

¹⁴ See **MF00091877**; BLMIS Account 1S0070 was known as BLMIS Account 101601 at this time.

balance and the historical cost of the securities reportedly held in the account as of March 31, 1981 on the Customer Statement.

21. Because BLMIS Account 1S0070¹⁵ was opened prior to April 1, 1981, the Principal Balance Calculation granted an initial principal credit in the amount of \$104,238.¹⁶

22. Subsequent to this initial principal credit, there were 19 cash deposits via checks into BLMIS Account 1S0070 in the aggregate amount of \$1,625,000, all representing principal.

23. On May 11, 1984, there was one inter-account transfer from BLMIS Account 101208 into BLMIS Account 1S0070 in the amount of \$77,478. As discussed above, only \$14,738 was credited to BLMIS Account 1S0070.

24. The 19 cash deposits and one inter-account transfer into BLMIS Account 1S0070 were reflected on the Customer Statements with a transaction code as follows:

- 18 cash deposits were identified with a transaction code of “CA;”
- 1 cash deposit was identified with a transaction code of “PAID;” and
- 1 inter-account transfer was identified with a transaction code of “CA.”

25. The 19 cash deposits and one inter-account transfer into BLMIS Account 1S0070 were credited to the customer’s account as reflected on the Customer Statements.

26. The initial principal credit, 19 cash deposits and one inter-account transfer provided BLMIS Account 1S0070 with a total of \$1,743,976 of principal.

27. Between March 31, 1981 and July 10, 1997, BLMIS Account 1S0070 reflected a total of 138 cash withdrawals totaling \$2,278,489 – an amount which included both principal and fictitious profits.

28. On July 10, 1997, there was one inter-account transfer from BLMIS Account 1S0070 into Shapiro Account 1S0337 in the amount of \$1,873,440, as reflected on the Customer Statements. However, as a result of the negative principal balance in BLMIS Account 1S0070 at the time of this inter-account transfer, there was no principal available to be transferred into Shapiro Account 1S0337. Therefore, this amount was not credited as principal into Shapiro Account 1S0337 because

¹⁵ See **Exhibit 8** for a copy of the March 1981 Customer Statement for BLMIS Account 1S0070 which demonstrates the amount granted as the principal credit as of April 1, 1981 for BLMIS Account 1S0070.

¹⁶ The amount of principal credit granted to BLMIS Account 1S0070 is calculated using the following formula: [New Balance] + [Value of Long Security Positions] - [Value of Short Security Positions]. Based on the March 1981 Customer Statement for BLMIS Account 1S0070, the calculation is as follows: [108,237.92 + 99,981.00 - 103,980.45 = 104,238.47].

this reported inter-account transfer constituted fictitious profits. (See **Exhibit 4B**; *see also* **Exhibit 4C** for the Detailed Schedule for the Principal Balance Calculation for Shapiro Account 1S0337.)

29. The 138 cash withdrawals and one inter-account transfer out of BLMIS Account 1S0070 were reflected on the Customer Statements with a transaction code as follows:

- 130 cash withdrawals were identified with a transaction code of “PW;”
- 8 cash withdrawals were identified with a transaction code of “PYMT;” and
- 1 inter-account transfer was identified with a transaction code of “CW.”

30. The 138 cash withdrawals and one inter-account transfer out of BLMIS Account 1S0070 were debited from the customer’s account as reflected on the Customer Statements.

C. Description of the Cash Deposits and the Inter-Account Transfer Into Shapiro Account 1S0337

31. On July 10, 1997, Shapiro Account 1S0337 was opened with an inter-account transfer from BLMIS Account 1S0070 in the amount of \$1,873,440, as reflected on the Customer Statements. However, as discussed above, due to the negative principal balance in BLMIS Account 1S0070 at the time of this inter-account transfer, there was no principal available to be transferred into Shapiro Account 1S0337. Therefore, this amount was not credited as principal into Shapiro Account 1S0337 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 4B** and **4C**.)

32. Subsequent to this initial inter-account transfer, there were seven cash deposits via checks into Shapiro Account 1S0337 in the aggregate amount of \$1,200,000, all representing principal.

33. The one inter-account transfer and seven cash deposits were reflected on the Customer Statements with a transaction code as follows:

- 1 inter-account transfer was identified with a transaction code of “JRNL;” and
- 7 cash deposits were identified with a transaction code of “CA.”

34. The one inter-account transfer and seven cash deposits were credited to the customer’s account as reflected on the Customer Statements.

35. In sum, the one inter-account transfer and seven cash deposits provided Shapiro Account 1S0337 with a total of \$1,200,000 of principal. (See **Exhibit 3A**.)

D. Description of the Cash Withdrawals Out of Shapiro Account 1S0337

36. Between July 10, 1997 and December 11, 2008, Shapiro Account 1S0337 reflected a total of 45 cash withdrawals totaling \$3,654,829 – an amount which included both principal *and* fictitious profits.

37. The 45 cash withdrawals were reflected on the Customer Statements with a transaction code of “CW,” and were debited from the customer’s account.

38. The Principal Balance Calculation for Shapiro Account 1S0337 demonstrates that between July 10, 1997 and December 11, 2008, \$3,654,829 was withdrawn from BLMIS, which consisted of \$1,200,000 of principal and an additional \$2,454,829 of funds withdrawn in excess of principal, representing fictitious profits. Within the two-year period prior to December 11, 2008, \$748,698 of fictitious profits was withdrawn from Shapiro Account 1S0337. (See **Exhibit 4C**.)

III. DESCRIPTION OF ACTIVITY IN SHAPIRO ACCOUNT 1S0338 AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION

39. Shapiro Account 1S0338 was maintained with BLMIS beginning in July 1997. Throughout its account history with BLMIS, Shapiro Account 1S0338 had a total of 57 cash deposit and withdrawal transactions. In addition to these cash transactions, there was one inter-account transfer from BLMIS Account 1S0072 into Shapiro Account 1S0338.

40. The cash deposit and withdrawal transactions, as well as the inter-account transfer, all impacted the Principal Balance Calculation for Shapiro Account 1S0338. Each of these transactions was reflected on the Customer Statements between July 1997 and November 2008.

41. Thus, in order to perform the Principal Balance Calculation for Shapiro Account 1S0338, BLMIS Account 1S0072 was analyzed to determine the amount of principal available in that account that could be transferred into Shapiro Account 1S0338.

42. **Exhibit 3B** to this report (Summary Schedule of Cash and Principal Activity in Shapiro Account 1S0338) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Shapiro Account 1S0338.

43. **Exhibits 5A** and **5B** to this report provide detailed schedules for the Principal Balance Calculation for BLMIS Account 1S0072 and Shapiro Account 1S0338, respectively.

A. Summary of Activity in BLMIS Account 1S0072 and the Inter-Account Transfer Into Shapiro Account 1S0338

44. On April 18, 1983, BLMIS Account 1S0072 was opened with a deposit via check in the amount of \$300,000, all representing principal.

45. Subsequent to this initial deposit, there were five cash deposits via checks into BLMIS Account 1S0072 in the aggregate amount of \$600,000, all representing principal.

46. The six cash deposits were reflected on the Customer Statements with a transaction code of “CA,” and were credited to the customer’s account.

47. In addition to these cash deposits, I have granted principal credit for one additional deposit into BLMIS Account 1S0072 in the amount of \$1,000. Because no BLMIS records were available to identify cash and principal transactions for BLMIS Account 1S0072 for the month of July 1988, I reviewed the available BLMIS records immediately preceding and following the month of July 1988. Based on my review, I reasonably inferred that a cash deposit in the amount of \$1,000 took place in July 1988.¹⁷

48. The seven cash deposits provided BLMIS Account 1S0072 with a total of \$901,000 of principal.

49. Between April 18, 1983 and July 10, 1997, BLMIS Account 1S0072 reflected a total of 110 cash withdrawals totaling \$1,341,705 – an amount which included both principal and fictitious profits.¹⁸

50. On July 10, 1997, there was one inter-account transfer from BLMIS Account 1S0072 into Shapiro Account 1S0338 in the amount of \$948,453, as reflected on the Customer Statements. However, as a result of the negative principal balance in BLMIS Account 1S0072 at the time of this inter-account transfer, there was no principal available to be transferred into Shapiro Account 1S0338. Therefore, this amount was not credited as principal into Shapiro Account 1S0338 because this reported inter-account transfer constituted fictitious profits. (See **Exhibit 5A** for the Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0072; see also **Exhibit 5B** for the Detailed Schedule for the Principal Balance Calculation for Shapiro Account 1S0338.)

¹⁷ See **Exhibit 9** for the June 1988 and August 1988 Customer Statements for BLMIS Account 1S0072. BLMIS Account 1S0072 was known as BLMIS Account 101938 at this time.

¹⁸ These cash withdrawals exclude the line items on the Customer Statements related to a check for \$30,000 issued by BLMIS on September 27, 1994, which was returned on October 6, 1994. (See **Exhibit 5A**.)

51. The 110 cash withdrawals and one inter-account transfer were reflected on the Customer Statements with a transaction code as follows:

- 110 cash withdrawals were identified with a transaction code of “PW;” and
- 1 inter-account transfer was identified with a transaction code of “CW.”

52. The 110 cash withdrawals and one inter-account transfer were debited from the customer’s account as reflected on the Customer Statements.

B. Description of the Cash Deposits and the Inter-Account Transfer Into Shapiro Account 1S0338

53. On July 10, 1997, Shapiro Account 1S0338 was opened with an inter-account transfer from BLMIS Account 1S0072 in the amount of \$948,453, as reflected on the Customer Statements. However, as discussed above, due to the negative principal balance in BLMIS Account 1S0072 at the time of this inter-account transfer, there was no principal available to be transferred into Shapiro Account 1S0338. Therefore, this amount was not credited as principal into Shapiro Account 1S0338 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 5A** and **5B**.)

54. Subsequent to this initial inter-account transfer, there were seven cash deposits via checks into Shapiro Account 1S0338 in the aggregate amount of \$350,315, all representing principal.¹⁹

55. The one inter-account transfer and seven cash deposits were reflected on the Customer Statements with a transaction code as follows:

- 1 inter-account transfer was identified with a transaction code of “JRNL;” and
- 7 cash deposits were identified with a transaction code of “CA.”

56. The one inter-account transfer and seven cash deposits were credited to the customer’s account as reflected on the Customer Statements.

57. In sum, the one inter-account transfer and seven cash deposits provided Shapiro Account 1S0338 with a total of \$350,315 of principal. (See **Exhibit 3B**.)

¹⁹ These cash deposits exclude the line items on the Customer Statements related to a check for \$10,000 on March 8, 2002, because the check was cancelled on March 11, 2002. (See **Exhibit 5B**.)

C. Description of the Cash Withdrawals Out of Shapiro Account 1S0338

58. Between July 10, 1997 and December 11, 2008, Shapiro Account 1S0338 reflected a total of 50 cash withdrawals totaling \$2,146,472 – an amount which included both principal and fictitious profits.²⁰

59. The 50 cash withdrawals were reflected on the Customer Statements with a Transaction code of “CW,” and were debited from the customer’s account.

60. The Principal Balance Calculation for Shapiro Account 1S0338 demonstrates that between July 10, 1997 and December 11, 2008, \$2,146,472 was withdrawn from BLMIS, which consisted of \$350,315 of principal and an additional \$1,796,156 of funds withdrawn in excess of principal, representing fictitious profits.²¹ Within the two-year period prior to December 11, 2008, \$64,790 of fictitious profits was withdrawn from Shapiro Account 1S0338. (See **Exhibit 5B**.)

IV. DESCRIPTION OF ACTIVITY IN SHAPIRO ACCOUNT 1S0467 AND THE TRANSACTIONS IMPACTING THE PRINCIPAL BALANCE CALCULATION

61. Shapiro Account 1S0467 was maintained with BLMIS beginning October 2002. Throughout its account history with BLMIS, Shapiro Account 1S0467 had a total of six cash deposit and withdrawal transactions. In addition to these cash transactions, there was one inter-account transfer from BLMIS Account 1S0327 into Shapiro Account 1S0467.

62. The cash deposit and withdrawal transactions, as well as the inter-account transfer, all impacted the Principal Balance Calculation for Shapiro Account 1S0467. Each of these transactions was reflected on the Customer Statements between October 2002 and November 2008.

63. Thus, in order to perform the Principal Balance Calculation for Shapiro Account 1S0467, BLMIS Account 1S0327 was analyzed to determine the amount of principal available in that account that could be transferred into Shapiro Account 1S0467.

64. To determine the amount of principal available in BLMIS Account 1S0327, one additional account, BLMIS Account 1S0164, was analyzed because an inter-account transfer from this account impacted the principal balance of BLMIS Account 1S0327.

²⁰ These cash withdrawals exclude the line items on the Customer Statements related to a check for \$33,701 issued by BLMIS on October 28, 1997, which was returned on November 3, 1997. (See **Exhibit 5B**.)

²¹ Difference due to rounding.

65. **Exhibit 3C** to this report (Summary Schedule of Cash and Principal Activity in Shapiro Account 1S0467) provides a summary of the activity in the BLMIS accounts that impacted the Principal Balance Calculation for Shapiro Account 1S0467.

66. **Exhibits 6A-6C** to this report provide detailed schedules for the Principal Balance Calculation for BLMIS Account 1S0164, BLMIS Account 1S0327, and Shapiro Account 1S0467, respectively.

A. Summary of Activity in BLMIS Account 1S0164 and the Inter-Account Transfer Into BLMIS Account 1S0327

67. On July 23, 1992, BLMIS Account 1S0164 was opened with a deposit via wire in the amount of \$505,500, all representing principal.

68. Subsequent to this initial deposit, there was one deposit via check into BLMIS Account 1S0164 in the amount of \$40, all representing principal.²²

69. The two cash deposits were reflected on the Customer Statements with a transaction code of “CA,” and were credited to the customer’s account.

70. The two cash deposits provided BLMIS Account 1S0164 with a total of \$505,540 of principal.

71. Between July 23, 1992 and July 25, 1997, BLMIS Account 1S0164 reflected a total of four cash withdrawals totaling \$171,695 – an amount which included all principal.

72. On July 25, 1997, there was one inter-account transfer from BLMIS Account 1S0164 into BLMIS Account 1S0327 in the amount of \$828,709, as reflected on the Customer Statements. However, because BLMIS Account 1S0164 had only \$333,845 of principal available at the time of this inter-account transfer, BLMIS Account 1S0327 was credited with \$333,845 of principal. The remaining balance of this reported inter-account transfer constituted fictitious profits. (See **Exhibit 6A** for the Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0164; *see also* **Exhibit 6B** for the Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0327.)

73. The four cash withdrawals and the one inter-account transfer were reflected on the Customer Statements with a transaction code of “CW,” and were debited from the customer’s account.

²² The cash deposits exclude the line items on the Customer Statements related to a check for \$10 on October 4, 1994 because the same amount was credited on the same day due to “Check Fee Overpayment.” (See **Exhibit 6A**.)

B. Summary of Activity in BLMIS Account 1S0327 and the Inter-Account Transfer Into Shapiro Account 1S0467

74. On July 25, 1997, BLMIS Account 1S0327 was opened with an inter-account transfer from BLMIS Account 1S0164 in the amount of \$828,709, as reflected on the Customer Statements. However, as discussed above, BLMIS Account 1S0327 was only credited with \$333,845 of principal from this inter-account transfer. The remaining balance of this reported inter-account transfer constituted fictitious profits. (See **Exhibits 6A** and **6B**.)

75. The one inter-account transfer was reflected on the Customer Statements with a transaction code of “JRNL,” which was credited to the customer’s account.

76. The one inter-account transfer provided BLMIS Account 1S0327 with a total of \$333,845 of principal.

77. Between July 25, 1997 and October 8, 2002, BLMIS Account 1S0327 reflected a total of six cash withdrawals totaling \$482,789 – an amount which included both principal and fictitious profits.

78. On October 8, 2002, there was one inter-account transfer from BLMIS Account 1S0327 into Shapiro Account 1S0467 in the amount of \$1,187,673, as reflected on the Customer Statements. However, as a result of the negative principal balance in BLMIS Account 1S0327 at the time of this inter-account transfer, there was no principal available to be transferred into Shapiro Account 1S0467. Therefore, this amount was not credited as principal into Shapiro Account 1S0467 because this reported inter-account transfer constituted fictitious profits. (See **Exhibit 6B**; see also **Exhibit 6C** for the Detailed Schedule for the Principal Balance Calculation for Shapiro Account 1S0467.)

79. The six cash withdrawals and one inter-account transfer were reflected on the Customer Statements with a transaction code of “CW” and were debited from the customer’s account.

C. Description of the Cash Deposit and the Inter-Account Transfer Into Shapiro Account 1S0467

80. On October 8, 2002, Shapiro Account 1S0467 was opened with an inter-account transfer from BLMIS Account 1S0327 in the amount of \$1,187,673, as reflected on the Customer Statements. However, as discussed above, due to the negative principal balance in BLMIS Account 1S0327 at the time of this inter-account transfer, there was no principal available to be transferred

into Shapiro Account 1S0467. Therefore, this amount was not credited as principal into Shapiro Account 1S0467 because this reported inter-account transfer constituted fictitious profits. (See **Exhibits 6B** and **6C**.)

81. Subsequent to this initial inter-account transfer, there was one deposit via check into Shapiro Account 1S0467 in the amount of \$11,034, all representing principal.

82. The one inter-account transfer and one deposit were reflected on the Customer Statements with a transaction code as follows:

- 1 inter-account transfer was identified with a transaction code of “JRNL;” and
- 1 cash deposit was identified with a transaction code of “CA.”

83. The one inter-account transfer and one cash deposit were credited to the customer’s account as reflected on the Customer Statements.

84. In sum, this one deposit and one inter-account transfer provided Shapiro Account 1S0467 with a total of \$11,034 of principal. (See **Exhibit 6C**.)

D. Description of the Cash Withdrawals Out of Shapiro Account 1S0467

85. Between October 8, 2002 and December 11, 2008, Shapiro Account 1S0467 reflected a total of five cash withdrawals totaling \$468,769 – an amount which included both principal and fictitious profits.

86. The five cash withdrawals were reflected on the Customer Statements with a transaction code of “CW,” and were debited from the customer’s account.

87. The Principal Balance Calculation for Shapiro Account 1S0467 demonstrates that between October 8, 2002 and December 11, 2008, \$468,769 was withdrawn from BLMIS, which consisted of \$11,034 of principal and an additional \$457,735 of funds withdrawn in excess of principal, representing fictitious profits. Within the two-year period prior to December 11, 2008, \$112,576 of fictitious profits was withdrawn from Shapiro Account 1S0467. (See **Exhibit 6C**.)

V. SIGNATURE AND RIGHT TO MODIFY

88. This report and the exhibits contained herein present my findings and the bases thereof. To the extent that any additional information is produced by any party, I reserve the right to incorporate such additional information into my report or to modify my report as necessary.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Matthew B. Greenblatt", is written over a solid horizontal line.

Matthew B. Greenblatt, CPA/CFF, CFE
Senior Managing Director
FTI Consulting, Inc.

Dated: July 31, 2015

VI. LIST OF EXHIBITS

- Exhibit 1** – Curriculum Vitae and Testimony of Matthew B. Greenblatt
- Exhibit 2** – Documents Considered
- Exhibit 3A** – Summary Schedule of Cash and Principal Activity in Shapiro Account 1S0337
- Exhibit 3B** – Summary Schedule of Cash and Principal Activity in Shapiro Account 1S0338
- Exhibit 3C** – Summary Schedule of Cash and Principal Activity in Shapiro Account 1S0467
- Exhibit 4A** – Detailed Schedule for the Principal Balance Calculation for BLMIS Account 101208
- Exhibit 4B** – Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0070
- Exhibit 4C** – Detailed Schedule for the Principal Balance Calculation for Shapiro Account 1S0337
- Exhibit 5A** – Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0072
- Exhibit 5B** – Detailed Schedule for the Principal Balance Calculation for Shapiro Account 1S0338
- Exhibit 6A** – Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0164
- Exhibit 6B** – Detailed Schedule for the Principal Balance Calculation for BLMIS Account 1S0327
- Exhibit 6C** – Detailed Schedule for the Principal Balance Calculation for Shapiro Account 1S0467
- Exhibit 7** – March 1981 Customer Statement for BLMIS Account 101208
- Exhibit 8** – March 1981 Customer Statement for BLMIS Account 1S0070
- Exhibit 9** – June 1988 and August 1988 Customer Statements for BLMIS Account 1S0072